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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Wednesday, October 20, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Situation Report

25X1 [] Christian and Lebanese leftist leaders, who were not represented at the Riyadh mini-summit, have reacted with predictable skepticism to the agreement concluded there by Arab leaders on Monday. All sides are likely to play a waiting game until they have consulted with their allies.

25X1 [] //Camille Shamun, the most intransigent of Christian leaders, former Lebanese president Sulayman Franjiyah, and Phalanges military leader Bashir Jumayyil all have expressed strong doubts that the Riyadh accords can be implemented, [] 25X1

25X1 [] Phalanges head Pierre Jumayyil, however, publicly welcomed the agreement as a hopeful first step toward solving the crisis. 25X1

25X1 [] Lebanese leftist leader Kamal Jumblatt has reacted with similar coolness to the Riyadh accords. Jumblatt said yesterday, that the agreement cannot succeed unless Syrian troops withdraw from Lebanon and are replaced by security forces drawn from Egypt, Algeria, Iraq, and other Arab League states.

25X1 [] Military activity tapered off yesterday, following the announcement at Riyadh that a general cease-fire is scheduled to go into effect on Thursday. There were only sporadic artillery exchanges along Beirut's confrontation line in contrast to the heavy and often random shelling in the capital over the weekend. Press reports indicate that Christian units exchanged artillery fire with Palestinian and Lebanese leftist forces in the Alayh area. [] 25X1

EGYPT-USSR: Visit

25X1 [] Egyptian Foreign Minister Fahmi may be planning a trip to Moscow soon, possibly as early as next week.

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25X1 [] Although Fahmi's deputy denied to the US embassy on Monday any knowledge of a visit, an American journalist claims to have learned from another "high official" that the visit is in the offing and will be announced tomorrow.

25X1 [] //President Sadat has been under occasional pressure from Fahmi and other advisers to improve ties with the Soviets in order both to counter the impression that Egypt is wholly dependent on the US and to induce Moscow to resume deliveries of military equipment.//

25X1 [] //Fahmi personally made a concerted effort early this summer to impress on Soviet and East European diplomats in Cairo that Egypt wants better ties with Moscow. Neither the Soviets nor the Egyptians pursued the initiative.//

25X1 [] Throughout the summer, Sadat repeatedly attacked the Soviets in public statements, often linking them to Libya's subversive actions in Egypt and elsewhere in the Arab world. Cairo may now feel it advisable to reopen the channel to Moscow in the period before the US presidential election.

25X1 [] The Egyptians are counting on the US to resume negotiations with Israel next year on a Middle East settlement and to consider substantial military aid for Egypt, but they probably hope to restore a degree of amicability in their relations with the USSR lest the diplomatic and military assistance from the US not materialize.

25X1 [] Cairo no doubt also expects little from the recent Soviet proposal to reconvene the Middle East peace conference

at Geneva, but the Egyptians will want to appear to be supporting it in order to maintain pressure on the US to recommence peace negotiations.

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CHINA: Meeting

The major meeting of the party leadership that began in Peking early last week seems still to be in session.

A large number of limousines, usually a sign that VIPs are in town, was noted in Peking on Monday.

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//A leading Hong Kong Communist said yesterday that he believes announcement of Hua Kuo-feng's succession to Mao Tse-tung and "other matters" will be made in seven or eight days, presumably at the conclusion of the meeting. The other matters probably refer to the reconstruction of the now depleted Politburo, personnel appointments, and possibly some statement on the fate of the four arrested leftists.//

Although no official charges against the leftist quartet have been made public, an editorial published yesterday seemed to pave the way for a charge--used widely in wall posters--that they plotted a coup. The editorial attacked unnamed persons who tried to "usurp party leadership."

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RHODESIA: Nationalist Unity

//The "front line" African presidents apparently are determined to keep disputes among the Rhodesian nationalists from threatening the success of the Geneva conference. At a meeting in Lusaka on Sunday, Zambian President Kaunda, Tanzanian President Nyerere, Mozambican President Machel, and Botswanan President Khama reportedly informed leaders of all of the major nationalist groups that dissension among them at Geneva would not be tolerated.//

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[REDACTED] //The four presidents have been involved in several abortive efforts over the years to unite the nationalists and they are aware that nationalist disunity could threaten the transition to black rule by allowing Rhodesian Prime Minister Smith to again play off the rival factions against one another.//

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[REDACTED] //Mugabe reportedly sees himself playing a mediating role between Nkomo and Muzorewa in order to help smooth out differences arising during the conference.//

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[REDACTED] //Mugabe also said that his statement that he would walk out of the conference if Ndabaningi Sithole attends was meant only for public consumption. Earlier this week, the British government added Sithole to the other three Rhodesian nationalist leaders invited to lead delegations to the Geneva meetings. [REDACTED]

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IRAN: Krupp Purchase

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[] Iran has purchased a 25-percent interest in the holding company that controls the Krupp conglomerate, a manufacturer of ships, steel, machinery, and electronics equipment. The firm also provides a broad range of trade and service activities. The purchase will guarantee Krupp's long-term involvement in Iran's economic development program.

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[] Iran purchased a 25-percent share in the Krupp iron and steel enterprise in 1974 and a 40-percent interest in two Brazilian subsidiaries of the conglomerate earlier this year.

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[] The joint announcement avoided any mention of the value of the transaction. It made clear, however, that Iran's 25-percent interest would entitle it to exercise a managerial role in the corporation. Krupp enterprises suffered substantial losses last year; even greater losses have been forecast for 1976.

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[] The Iranian infusion will provide Krupp with much needed operating capital. Iran for its part, probably was motivated by a desire to expand its access to Krupp's technology.

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EC: Negotiations

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//The EC made major progress in its efforts to expand trade and improve political relations with the Arab states of the eastern Mediterranean last week with the initialing of an expanded preferential trade and aid agreement with Egypt.//

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[] //The Community is scheduled to sign similar accords with Jordan and Syria following talks later this month. Egypt already has a preferential trade agreement with the EC, but Jordan and Syria do not. The Nine had earlier anticipated that an agreement with Lebanon could be concluded as well, but the political situation in that country forced a halt in bilateral talks.//

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[] //EC foreign ministers are expected to approve all three agreements when they meet in Brussels in mid-November, thus paving the way for final signature in the Arab capitals later next month. This would be the final step toward attaining the EC's goal of a comprehensive Mediterranean policy, first suggested by France in 1972.//

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[] //The agreements--modeled on accords the Community signed with Algeria, Morocco, and Tunisia earlier this year--provide for preferential tariff reductions on minerals, industrial goods, and certain agricultural products. They also include protocols on technical, financial, economic, and environmental cooperation and establish joint committees to implement the agreements.//

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[] //The EC agreed to provide about \$190 million in financial assistance to Egypt over five years. These funds, however, would not be made available until all EC members have ratified the agreement. This process could take up to two years and the Egyptians--who initially asked for more than twice as much aid--are expected to push for much quicker access. Approximately \$70, \$50, and \$35 million in financial aid has been earmarked for Syria, Jordan, and Lebanon respectively.//

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[] //Agreement on the financial assistance provisions for these eastern Mediterranean states has opened the way for a similar accord with Israel. Although the EC signed a preferential trade agreement with Israel last year, it insisted, on political grounds, that negotiations for a supplementary financial protocol proceed in parallel with the Arab talks. The Community plans to loan the Israelis up to \$35 million at market rates.//

25X1 [] //Israel yesterday labeled the EC offer a symbolic gesture, and insisted that more aid is required to help narrow its huge trade gap with the EC, which amounted to \$1.2 billion dollars last year.//

25X1 [] //The EC foreign ministers will probably also approve a major increase in Community food aid to Egypt at their Council in November. The Commission has proposed that the amount of wheat the EC provides Egypt be more than doubled, although vegetable oil and skim milk shipments would be maintained at the same levels. [] 25X1

CIEC: Working Sessions Resume

25X1 [] //The issue of how to deal with developing country debt problems will highlight the meeting of the Conference on International Economic Cooperation that opens in Paris today. Most other issues are either close to being resolved or are being discussed in other forums. The developing countries at CIEC will also continue to demand protection for their earnings from exports of raw materials.//

25X1 [] //Hanging over the week-long CIEC meeting will be the oil price increase expected when the OPEC ministers meet in December. Most of the EC states are aware that if the developing country demands are not satisfied at CIEC, the OPEC states will be able to cite this as an excuse on which to base the price increase.//

25X1 [] //At the same time, some of the developing states may believe that the concessions they are seeking from the industrialized states at CIEC would be jeopardized by an oil price increase. This could lead to pressure on OPEC to exercise restraint in boosting oil prices. The CIEC ministerial review conference will take place in mid-December.//

25X1 [] //A compromise on the debt issue during this CIEC meeting is unlikely. Nevertheless, delegates from the developing and oil-producing states will probably not try to break off the talks as they did in July. Without concessions by the industrialized states at this session, however, the chances of the developing states forcing a clash next month or at the December ministerial are considerably higher.//

25X1 [] //The developing states have shown little willingness to compromise on the debt question. Virtually all of them have steadfastly endorsed the original demands, laid out last February, which call for immediate generalized debt relief and a refinancing of commercial debts. The proposals also specify individual country rescheduling according to relatively automatic procedures well in advance of crisis situations.//

25X1 [] //The EC and the US proposed at the meetings last month that a differentiation be made between acute debt crises and longer term situations where the unavailability or poor management of financial resources hampers economic development. In the former case, the proposal focuses on a case-by-case approach that recognizes responsibilities of both debtors and creditors. In the less acute situations, the proposal suggests case-by-case examination of individual countries by an international organization, such as the World Bank, leading to negotiations between creditors and debtors.//

25X1 [] //The EC Commission and most of the EC members--including, although to a limited degree, the West Germans whose position has been most similar to that of the US--now feel that they will have to be more forthcoming in December to avoid a breakdown of the talks.// 25X1

UN: Secretary General Candidates

25X1 [] Mexican President Echeverria is unlikely to develop much support for his candidacy as UN Secretary General, but his announcement that he is available to run may reopen a question which appeared to have been settled.

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[] Secretary General Kurt Waldheim, who last week announced his readiness to serve another five-year term--his current term expires on December 31--has been regarded as a shoo-in by most UN members. He has strong support from most of the regional groupings in the UN.

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[] Echeverria has been privately promoting his own candidacy for some time, but with little success. His implicit attempt to gain third-world endorsement by playing host to the meeting last month on economic cooperation among developing countries was regarded by most participants as a failure. Even the majority of states from Latin America are not behind his candidacy, and the Organization of African Unity has formally endorsed Waldheim's re-election.

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[] The Africans, moreover, may prefer not to support a third-world candidate until one of their own is in a better position to win the job in five years. The Senegalese head of the UN Educational, Scientific, and Cultural Organization--who is both black and a Muslim--would appear to have an excellent chance of gaining the nomination at that time. The Asians also are not strongly for Echeverria.

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[] Should the contest be thrown open as a result of Echeverria's efforts, the Asians would be likely to support their own dark-horse candidate, Hamilton Amerasinghe, Sri Lanka's permanent UN representative and president of the current General Assembly.

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[] Crucial to Echeverria's candidacy is the support of China, a permanent member of the Security Council, whose position on the issue is not yet known. Some UN delegates attribute a reported earlier request by Peking for a delay in the election timetable to its anticipation of a formal announcement by Echeverria of his candidacy. Even if China should support Echeverria, he would probably be unable to swing enough third-world votes behind his candidacy to challenge Waldheim seriously.

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[] The election of the Secretary General--the timing of which has not been set--requires the support of the 15 Security Council members, including the five permanent members. The Council's choice is subsequently ratified by the full General Assembly. []

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INTERNATIONAL: European Joint Float

25X1 [] //The readjustment last weekend in the parities at which the currencies of the members of the European joint float are officially maintained against one another, was probably a compromise solution. The West German mark was revalued 2 percent against the Belgian franc and the Dutch guilder, 3 percent against the Swedish and the Norwegian crowns, and 6 percent against the Danish crown.//

25X1 [] //The other members had unanimously rejected West Germany's proposal in late September of an across-the-board 5-percent revaluation of the mark. West Germany reportedly next planned to propose a temporary suspension of joint float parities to allow the foreign exchange markets to establish a new set of equilibrium rates. The move on Sunday was apparently taken to stave off what West German Finance Minister Hans Apel described as a total collapse of the joint float.//

25X1 [] //By minimizing parity changes within the snake, Belgium and the other smaller members are trying to avoid some of the costs of their more expansionary domestic policies. West Germany is in essence forced to pick up part of the bill for these policies in the form of higher import costs and support of the other members' currencies in the exchange market. In return for agreeing to small rate changes, West Germany probably exacted promises of closer economic policy coordination from its snake partners.//

25X1 [] //Although the mark revaluation may have a psychological impact, its lasting economic effects are in doubt. Since the last mark revaluation in June 1973, the economic performances of the snake members have diverged more than the 2 to 6 percent of the latest exchange rate realignment.//

25X1 [] //The new realignment made up less than one third of the difference in price increases between West Germany and the other joint float members since mid-1973. Moreover, inflationary pressures still diverge widely. For example, wages are increasing three times as fast, on an average, in the five smaller joint float members than in West Germany.//

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[] The exchange markets are pessimistic about the realignment. Bankers and currency traders seem to feel that a change of two to three times the magnitude of the one made would be necessary to reflect economic reality.

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[] //The parity realignment is unlikely to stem speculation against the float currencies for more than a few months at best. West Germany, loathe to abandon Bundesbank monetary targets in order to intervene in the exchange market, will probably demand additional action. If the smaller members refuse realistic parity changes in the future, the Germans may decide that the cost of continuing the snake outweighs the benefits.//

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FRANCE - WEST GERMANY: NATO Troop Withdrawal

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[] //The French and West German defense ministers will meet this weekend to discuss the political and military implications of France's recently announced decision to withdraw 14,000 troops from West Germany over the next two years, leaving some 46,000 troops there. French officials have told the Germans that the withdrawal is merely one aspect of an overall reorganization of the French army.//

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[] //Under the reorganization plan, about 5,000 men in three artillery regiments will be withdrawn this year. Two of these regiments will be equipped with Pluton tactical nuclear missiles and reassigned to units in northeastern France.//

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[] //The remaining 9,000 men will be returned gradually to France in line with France's program to reorganize its six active divisions into 16 smaller divisions equipped with additional medium tanks and armored vehicles. The program, announced this spring, calls for a slight reduction in the army's size and the elimination of certain intermediate levels of command.//

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[] //The reorganization is designed to facilitate command and control of the military forces.//

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25X1 [] //It is unclear what effect the reductions will have on the combat capability of the three smaller French divisions to be kept in West Germany. French officials claim that the overall military capability of these troops will be improved because a smaller, more mobile force will be better able to respond to a conventional military threat.//

25X1 [] //The Germans, who requested the meeting this weekend, may be seeking a fuller explanation from the French of their motives in making the withdrawals.//

25X1 [] //Although the Germans were informed of the withdrawals well in advance, they say that until the public announcement they were not aware that the withdrawals of the 9,000 troops were connected with the French army reorganization. The 9,000 troops represent a reduction in the strength of French forces in West Germany of about 14 percent, more than double the percentage of the reductions associated with reorganization of the French army. The reduction will occur at a much faster rate--two years as opposed to six for the reductions in France. [] 25X1

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